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Chapter 11

8 Attorneys for Karen Easterday

9 UNITED STATES BANKRUPTCY COURT
10 EASTERN DISTRICT OF WASHINGTON

11 In re
12 EASTERDAY RANCHES, INC., *et al.*
13 Debtors¹.

Chapter 11

Lead Case No. 21-00141
Jointly Administered

14 EASTERDAY RANCHES, INC. and
15 EASTERDAY FARMS,
16 Plaintiffs,
17 v.
18 ESTATE OF GALE A. EASTERDAY
19 (DECEASED), KAREN L. EASTERDAY,
20 CODY A. EASTERDAY, and DEBBY
21 EASTERDAY,
22 Defendants.

Adv. Pro No. 21-80050 (WLH)

**KAREN L. EASTERDAY'S
ANSWER, AFFIRMATIVE
DEFENSES, AND
COUNTERCLAIMS TO
COMPLAINT (I) TO
DETERMINE VALIDITY,
PRIORITY, OR EXTENT OF
INTERESTS IN PROPERTY;
AND (II) FOR
DECLARATORY JUDGMENT**

23 For her answer to the Complaint (I) to Determine Validity, Priority, or
24 Extent of Interests in Property and (II) For Declaratory Judgement (the
25 "Complaint), Karen L. Easterday ("Mrs. Easterday"), individually and as personal

26 ¹ This case is jointly administered with *In re Easterday Farms*, Case No. 21-00176-WLH11.

KAREN L. EASTERDAY'S ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIMS
TO COMPLAINT (I) TO DETERMINE VALIDITY, PRIORITY, OR EXTENT OF INTERESTS IN
PROPERTY; AND (II) FOR DECLARATORY JUDGMENT - 1

1 representative of the probate estate of Gale A. Easterday, hereby admits, denies,
2 and alleges as follows in response to the like- numbered paragraphs of the
3 Complaint:

4 1. As to the first sentence, Mrs. Easterday admits the Complaint seeks a
5 determination regarding the ownership of certain unspecified real property
6 (“Disputed Property”) that was sold in Debtors’ Bankruptcy Case. Mrs. Easterday
7 admits that the “Disputed Property” was only part of a larger package of assets
8 sold pursuant to an order of the court (the “Sale Properties”). Mrs. Easterday
9 denies the remainder of the first sentence because the Easterday Family personally
10 owned certain of the Sale Properties prior to the Sale.² As to the second sentence,
11 Mrs. Easterday admits that the Sale Properties were recently sold pursuant to an
12 order of this court but denies the remainder of the sentence. Mrs. Easterday denies
13 the third sentence.

14 2. Mrs. Easterday denies the first sentence but admits that the Sale
15 Properties were titled in various ways. Mrs. Easterday denies the second sentence.

16 3. As to the first sentence, Mrs. Easterday denies that the proceeds of the
17 Sale Properties belong solely to Debtors’ Estates. As to the second sentence, there
18 is no allegation to which a response is required but Mrs. Easterday clarifies that, to
19 the extent the Court enters a declaratory judgment, it must allocate the proceeds of
20 the Sale Properties not only between Debtors’ Estates and the Easterday Family,
21 but among Easterday Ranches, Inc. (“Debtor Ranches”), Easterday Farms (“Debtor
22 Farms”), and the Easterday Family.

23 4. Admit.

24 5. Admit.

25
26 ² Capitalized terms not defined herein have the meaning set out in the Complaint.

1 6. Admit.

2 7. Pursuant to Bankruptcy Rule 7008, Mrs. Easterday consents to entry
3 of final orders or judgment by this court.

4 8. Admit.

5 9. Admit.

6 10. Admit.

7 11. Admit.

8 12. Admit.

9 13. Admit.

10 14. Mrs. Easterday admits the first sentence but clarifies that the real
11 property referenced in the first sentence has nothing to do with the Sale Properties.
12 As to the second sentence, Mrs. Easterday admits that as of the Debtors'
13 bankruptcy filings, the Debtors operated commercial farming and cattle feeding
14 operations, but denies the remainder of the second sentence.

15 15. Mrs. Easterday denies the allegations in paragraph 15 because
16 members of the Easterday Family indeed owned, in their individual capacities,
17 some or all of the Sale Properties, including the real properties commonly known
18 as Cox Farm, River Farm, and Goose Gap Farm.

19 16. Mrs. Easterday admits that Debtors appear to dispute the Easterday
20 Family's ownership interests in the Sale Properties but Mrs. Easterday restates that
21 members of the Easterday Family indeed owned, in their individual capacities,
22 some or all of the Sale Properties.

23 17. Mrs. Easterday denies paragraph 17 because it is imprecise such that
24 she cannot admit or deny it.

25 18. Mrs. Easterday admits the first sentence but denies the remainder of
26 paragraph 18 because the Partnership Agreement speaks for itself.

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PROPERTY; AND (II) FOR DECLARATORY JUDGMENT - 3

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1 19. Mrs. Easterday denies paragraph 19 because it is imprecise such that
2 she cannot admit or deny it.

3 20. Deny.

4 21. Deny.

5 22. Mrs. Easterday admits that she is a party to the *Stipulation By and*
6 *Between Debtors and Non-Debtor Sellers Regarding Cooperation With Respect to*
7 *the Sale of Debtor and Non-Debtor Assets* (“Cooperation Agreement”) but denies
8 the remainder of paragraph 22 because the Cooperation Agreement speaks for
9 itself.

10 23. Mrs. Easterday admits paragraph 23 except denies that the Sale was
11 for \$209 million.

12 24. Mrs. Easterday incorporates by reference her responses to paragraphs
13 1-23.

14 25. Deny.

15 26. Mrs. Easterday denies the first sentence but admits that the Sale
16 Properties were titled in various ways. Mrs. Easterday denies the second sentence.

17 27. Deny.

18 28. Mrs. Easterday incorporates by reference her responses to paragraphs
19 1-27.

20 29. Mrs. Easterday denies the allegations in paragraph 29 because some
21 or all of the Sale Properties were indeed owned by the Easterday Family prior to
22 the Sale such that some or all of the proceeds belong to the Easterday Family.

23 30. Deny.

24 31. The allegations in paragraph 31 are legal conclusions to which no
25 response is required. To the extent a response is required, Mrs. Easterday denies
26 the allegations in paragraph 31.

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1 32. The allegations in paragraph 32 are legal conclusions to which no
2 response is required. To the extent a response is required, Mrs. Easterday denies
3 the allegations in paragraph 32.

4 **AFFIRMATIVE DEFENSES**

5 Without assuming the burden of proof as to any matter on which
6 Plaintiffs bear such burden, and without waiving any of the answers set forth
7 above, Mrs. Easterday asserts the following affirmative defenses.

8 **First Affirmative Defense**

9 **(Failure to State a Claim)**

10 Debtors' Complaint, and each purported cause of action asserted therein,
11 fails to state a claim because (i) Debtors fail to clearly identify what property is
12 included in the "Disputed Property" and (ii) Debtors have not performed pursuant
13 to the Cooperation Agreement. Their failures cannot create a justiciable issue
14 subject to the declaratory judgment process.

15 **Second Affirmative Defense**

16 **(Waiver and Estoppel)**

17 Debtors' Complaint, and each purported cause of action asserted therein, is
18 barred in whole or in part by the doctrines of waiver and estoppel because Debtors
19 failed to perform pursuant to the Cooperation Agreement.

20 **Third Affirmative Defense**

21 **(Judicial Admission)**

22 Debtors previously admitted to the Court that Mrs. Easterday is an interest
23 holder in the Sale Properties.

1 **Fourth Affirmative Defense**

2 (Condition Precedent)

3 Debtors' Complaint is barred by a failure of the occurrence of a condition
4 precedent to the relief sought, in that the parties have not yet negotiated in good
5 faith to reach agreement on a protocol for resolving disputes concerning the
6 allocation of proceeds.

7 **Fifth Affirmative Defense**

8 (Unclean Hands)

9 Debtors' Complaint, and each purported cause of action asserted therein, is
10 barred in whole or in part by the clean hands doctrine.

11 **COUNTERCLAIMS**

12 **Common Allegations**

13 1. These counterclaims seek a determination regarding the interests of
14 Debtor Ranches, Debtor Farms, and the Easterday Family in (i) all of the Sale
15 Properties (and not just the real property alluded to by Debtors as "Disputed
16 Property"), (ii) water rights appurtenant to the Sale Properties, and (iii) irrigation
17 improvements on the Sale Properties.

18 2. In connection with the Sale of the Sale Properties, the parties entered
19 into the Cooperation Agreement, which Cooperation Agreement was approved by
20 the court on April 27, 2021 [Doc. 640.]

21 3. Pursuant to section 4 of the Cooperation Agreement, "The Parties
22 shall, as soon as reasonably practicable following execution of this Stipulation,
23 negotiate in good faith and attempt to reach agreement on a timely basis on a
24 protocol for resolving disputes concerning the allocation of Net Sale Proceeds from
25 Sale Transactions (the "Allocation Protocol"), which Allocation Protocol shall
26 provide procedures for determining allocation of Net Sales Proceeds where the

KAREN L. EASTERDAY'S ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIMS
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1 Selling Parties in such Sale Transaction have been unable to reach agreement
2 regarding such allocation with any allocation determination being subject to
3 approval by the Bankruptcy Court.”

4 4. The Sale of the Sale Properties closed on or about July 30, 2021.
5 Farmland Reserve, Inc. purchased the Sale Properties.

6 5. The purchase and sale agreement for the Sale Properties specifically
7 requires that all water rights be transferred to Farmland Reserve, Inc. The
8 purchase price includes value for the real property, the water rights appurtenant to
9 the real property, and the irrigation improvements on the real property.

10 6. Some or all of Debtor Ranches, Debtor Farms, and the Easterday
11 Family owned the Sale Properties.

12 7. Some or all of Debtor Ranches, Debtor Farms, and the Easterday
13 Family owned the water rights appurtenant to the Sale Properties.

14 8. Some or all of Debtor Ranches, Debtor Farms, and the Easterday
15 Family owned the irrigation improvements on the Sale Properties.

16 **FIRST COUNTERCLAIM**

17 **(Specific Performance)**

18 9. Mrs. Easterday realleges and incorporates the allegations in the
19 paragraphs above as though fully set forth herein.

20 10. The parties entered into the Cooperation Agreement.

21 11. Section 4 of the Cooperation Agreement provides: “The Parties shall,
22 as soon as reasonably practicable following execution of this Stipulation, negotiate
23 in good faith and attempt to reach agreement on a timely basis on a protocol for
24 resolving disputes concerning the allocation of Net Sale Proceeds from Sale
25 Transactions (the “Allocation Protocol”), which Allocation Protocol shall provide
26 procedures for determining allocation of Net Sales Proceeds where the Selling

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1 Parties in such Sale Transaction have been unable to reach agreement regarding
2 such allocation with any allocation determination being subject to approval by the
3 Bankruptcy Court.”

4 12. Mrs. Easterday has done all, or substantially all, of the significant
5 things that the Cooperation Agreement required her to do to date or she was
6 excused from having to do those things.

7 13. Mrs. Easterday is ready, willing, and able to take further actions
8 reasonably necessary to comply with the Cooperation Agreement, including
9 negotiating in good faith and attempting to reach agreement on a protocol for
10 resolving disputes concerning the allocation of Net Sale Proceeds from Sale
11 Transactions.

12 14. Debtors, by and through their agents, breached the Cooperation
13 Agreement by failing to negotiate in good faith to reach agreement on a protocol
14 for resolving disputes concerning the allocation of Net Sale Proceeds from Sale
15 Transactions and, instead, filing the underlying adversary proceeding.

16 15. As a result of Debtors’ failure and refusal to comply with the
17 Cooperation Agreement, they are in continuing breach of the Cooperation
18 Agreement.

19 16. Mrs. Easterday’s legal remedies are inadequate and she therefore
20 seeks a judicial decree directing Debtors to comply with the Cooperation
21 Agreement by negotiating in good faith and attempting to reach agreement with the
22 Easterday Family on a protocol for resolving disputes concerning the allocation of
23 Net Sale Proceeds from Sale Transactions.

SECOND COUNTERCLAIM

(Declaratory Judgment as to Real Property Ownership)

17. Mrs. Easterday realleges and incorporates the allegations in the paragraphs above as though fully set forth herein.

18. Pursuant to 28 U.S.C. § 2201, “[i]n a case of actual controversy within its jurisdiction * * * any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.”

19. Upon information and belief, Debtor Ranches, Debtor Farms, and the Easterday Family (including Mrs. Easterday) claim an ownership interest in some of or all of the same real property.

20. This case presents an actual and justiciable controversy among Debtor Ranches, Debtor Farms, and the Easterday Family (including Mrs. Easterday).

21. By this Counterclaim, Mrs. Easterday seeks a judicial determination and declaratory judgment as to specifically who among Debtor Ranches, Debtor Farms, and the Easterday Family owned the Sale Properties.

22. This controversy is justiciable because it requires a legal determination of which entity or individuals owned the real property that was sold to generate the Sale proceeds.

23. Debtor Ranches, Debtor Farms, and the Easterday Family (including Mrs. Easterday) all have a stake in the outcome of this dispute, which, once resolved, will have a direct and immediate effect on the parties and allocation of the Net Sale Proceeds.

24. A judicial determination resolving this actual controversy is necessary and appropriate at this time.

KAREN L. EASTERDAY’S ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIMS TO COMPLAINT (I) TO DETERMINE VALIDITY, PRIORITY, OR EXTENT OF INTERESTS IN PROPERTY; AND (II) FOR DECLARATORY JUDGMENT - 9

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1 attempting to reach agreement with the Easterday Family on a protocol for
2 resolving disputes concerning the allocation of Net Sale Proceeds from Sale
3 Transactions.

4 (b) declaratory judgment as to ownership of the Sale Properties as among
5 Debtor Ranches, Debtor Farms, and the Easterday Family, including
6 Mrs. Easterday;

7 (c) determination of how much of the Sale proceeds are attributed to the
8 Sale Properties and belong to each of Debtor Ranches, Debtor Farms, and the
9 Easterday Family, including Mrs. Easterday;

10 (d) declaratory judgment as to ownership of the water rights appurtenant
11 to the Sale Properties as among Debtor Ranches, Debtor Farms, and the Easterday
12 Family, including Mrs. Easterday;

13 (e) determination of how much of the Sale proceeds are attributed to the
14 water rights appurtenant to the Sale Properties and belong to each of Debtor
15 Ranches, Debtor Farms, and the Easterday Family, including Mrs. Easterday;

16 (f) declaratory judgment as to ownership of the irrigation improvements
17 on the Sale Properties as among Debtor Ranches, Debtor Farms, and the Easterday
18 Family, including Mrs. Easterday;

19 (g) determination of how much of the Sale proceeds are attributed to the
20 irrigation improvements on the Sale Properties and belong to each of Debtor
21 Ranches, Debtor Farms, and the Easterday Family, including Mrs. Easterday; and

22 * * *

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TO COMPLAINT (I) TO DETERMINE VALIDITY, PRIORITY, OR EXTENT OF INTERESTS IN
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1 (h) all such other and further relief as this court deems just and equitable.

2 Dated: November 17, 2021.

3 TONKON TORP LLP

4
5 By /s/ Timothy J. Conway
6 Timothy J. Conway, WSBA 52204
7 Attorneys for Karen Easterday

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TO COMPLAINT (I) TO DETERMINE VALIDITY, PRIORITY, OR EXTENT OF INTERESTS IN
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